

Message Text

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USDOC FOR BEWT/DOWNEY AND BEWT/USSR

E.O. 11652: NA

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SUBJ: DISCUSSION OF POSSIBLE U.S. PAVILION AT MOSCOW EXHIBITION COMPL
EX

REF: STATE 130214

1. SUMMARY: DISCUSSION BETWEEN U.S. GROUP CONSISTING OF PORTER INTERNATIONAL, PANAM AND BANK OF AMERICAN AND OFFICIALS OF MOSCOW INTERNATIONAL TRADE CENTER AND EXHIBITION COMPLEX DURING WEEK OF JUNE 9 FAILED TO RESOLVE MAJOR ISSUE WHICH HAS PREVENTED AGREEMENT ON CONSTRUCTION OF U.S. PAVILION AT NEW EXHIBITION CNETER. IN DISCUSSING POSSIBLE USDOC USE OF U.S. PAVILION WITH SCHEMAN OF PORTER, COMMATT STRESSED THAT WE WERE UNABLE GIVE ANY SORT OF ADVANCE GUARANTEES. END SUMMARY.

2. ACCOMPANIED BY LOCAL PANAM AND BOFA REPS, SCHEMAN OF PORTER INTERNATIONAL MET TWICE WITH OFFICIALS OF MOSCOW INTERNATIONAL TRADE CENTER AND EXHIBITION COMPLEX DURING WEEK OF JUNE 9. DURING BOTH MEETINGS, SOVIETS (HEADED BY DEPUTY DIRECTOR L.V. IVANOV, SUBSTITUTIN
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FOR GENERAL DIRECTOR PAVLENKO, WHO FAILED TO PUT IN APPEARANCE DURING WEEK), SHOWED NO RPT NO FLEXIBILITY OF CRUCIAL QUESTION OF FINANCIAL GUARANTEE FOR CAPITAL INVESTED BY U.S. GROUP.

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CONSEQUENTLY, AGREEMENT APPEARS TO BE AS FAR OFF AS EVER, AND SOVIETS

HAVE INDICATED A RECOGNITION OF THIS FACT BY CONSIGNING SO-CALLED U.S. PAVILION TO "SECOND PHASE" OF CONSTRUCTION OF NEW EXHIBITION COMPLEX. (COMMENT: ALTHOUGH FINANCIAL GUARANTEE WAS ALWAYS IMPORTANT FOR U.S. GROUP, LOAN RESTRAINT UNDER WHICH BOFA IS CURRENTLY OPERATING COUPLED WITH SERIOUS FINANCIAL PROBLEMS OF PANAM MAKES GUARANTEE MORE IMPORTANT THAN EVER. IN PANAM'S CASE, ASSUMPTION OF EQUITY STAKE OF ONLY DOLS 700,000 IN THIS PROJECT WOULD REQUIRE APPROVAL OF NO LESS THAN 35 U.S. BANKS. IN ABSENCE GUARANTEE, SUCH APPROVAL IS INCONCEIVABLE. END COMMENT).

3. DURING DISCUSSIONS AT COMMERCIAL OFFICE JUNE 10 WITH COMMATT AND DEPUTY DIRECTOR, SCHEMAN OF PORTER MADE STRONG PITCH FOR SOME SORT OF SPACE USAGE GUARANTEE FROM USDOC AS POSSIBLE PARTIAL SOLUTION FOR FINANCIAL GUARANTEE PROBLEM. COMMATT EXPLAINED THAT WHILE USDOC WOULD PREFER TO USE U.S.-FINANCED AND OPERATED PAVILION, ASSUMING RATES CHARGED WERE COMPETITIVE, IT WOULD BE IMPOSSIBLE MAKE ANY COMMITMENT AS TO NUMBER, OR SIZE, OF USDOC-SPONSORED EVENTS WHICH MIGHT BE STAGED IN MOSCOW DURING GIVEN TIME PERIOD.

4. ECON/COMM COUNSELOR AND COMMATT RAISED SUBJECT OF NEGOTIATIONS FOR U.S. PAVILION AT NEW EXHIBITION COMPLEX DURING JUNE 13 MEETING WITH K.G. OGANESYAN, CHIEF OF CHAMBER OF COMMERCE AND INDUSTRY'S EXHIBITIONS DIRECTORATE. COMMATT EXPLAINED PROBLEM OF FINANCIAL GUARANTEE AND SUGGESTED THAT WITHOUT SOME SOLUTION FOR THIS PROBLEM, THERE WOULD BE NO U.S. PAVILION. OGANESYAN SAID HE WAS AWARE OF PROBLEM AND ADDED THAT HE HAD REQUESTED PAVLENKO TO PROVIDE HIM WITH A FULL DOSSIER ON THE NEGOTIATIONS WITH PORTER/PANAM/BOFA. OGANESYAN FURTHER SUGGESTED THAT IF FULL FINANCIAL GUARANTEE WERE PROVIDED, THIS WOULD ELIMINATE STIMULUS FOR U.S. GROUP TO SEEK TO ENSURE MAXIMUM UTILIZATION OF SPACE. HE ADDED THAT 50 PERCENT GUARANTEE MIGHT BE POSSIBLE.

5. COMMENT: ALL INDICATIONS ARE THAT PORTER/PANAM/BOFA PROPOSAL WILL BE ALLOWED TO DIE, AT LEAST FOR TIME-BEING, PARTICULARLY SINCE SOVIETS HAVE APPARENTLY SECURED ENOUGH OTHER TAKERS ON OFFERS TO CONSTRUCT PAVILIONS ON TERMS WHICH U.S. GROUP REJECTED TO ENSURE CONSTRUCTION OF FIRST STAGE OF NEW COMPLEX. AT JUNE 13 MEETING, OGANESYAN ADVISED THAT SOVIETS WERE HAVING TROUBLE ARRANGING FOR LIMITED OFFICIAL USE

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CONSTRUCTION OF 20,000 SQ. METER PAVILION WHICH IS SLATED TO BE CONSTRUCTED WITHIN IMMEDIATE CONFINES OF INTERNATIONAL TRADE CENTER. ACCORDING TO OGANESYAN, THIS PAVILION, WHICH WILL BE USED FOR SOVIET PARTICIPATION IN CHAMBER-SPONSORED EVENTS, WILL NOT BE FINANCED UNDER EX-IM/CHASE CREDIT. CHAMBER IS NOW LOOKING FOR FOREIGN FINANCING AND CONSTRUCTION ASSISTANCE ON THIS PROJECT. MATLOCK

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